

Supporting innovative small and medium enterprises: new ideas from Taiwan and Korea

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Small and medium enterprises (SMEs) play an important role in economic growth and development. In the member countries of the Asian Productivity Organization (APO), more than 90 percent of enterprises are SMEs, accounting for about 75 percent of the gross domestic product, as compared with 50 percent in the rest of the world. SMEs generate a large number of nonagricultural jobs, exports, sales, and value-added, and have the potential of becoming a powerful engine of manufactured export growth in Asia.¹

To seize business opportunities spawned by globalization and the integration of domestic with global markets, and to be able to compete in regional and global markets, SMEs, however, have to innovate. Encouraging SMEs to be innovative is a critical issue for economic growth. By innovation is meant the

development, deployment, and economic utilization of new products, processes, and services (OECD 1999). By being able to commercialize and develop competitiveness in new products and processes that sell in global markets, SMEs would be able to provide a significant contribution to growth and employment.

In the Philippines, however, where the role of SMEs in the economy has gained much attention in recent years, is the current support given them by the government conducive to such innovative undertaking? Is

¹ Asian Productivity Organization (APO), *Entrepreneurial Development for Competitive Small and Medium Enterprises*, (Tokyo: APO, 2007).

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the support adequate? What further support may be provided for them to be able to overcome constraints in their development and realize their full potential as engine of export growth?

This *Policy Notes* cites a couple of interesting programs being implemented in Taiwan and South Korea, the two leading East Asian countries in the area of creating and supporting SMEs, to stimulate innovations in SMEs. They provide fresh ideas which Philippine policymakers may want to examine and study in order to improve support to domestic SMEs.

Taiwan²

There are approximately 1.235 million SMEs in Taiwan, accounting for 97.7 percent of all business enterprises in the country. In 2008, SMEs posted exports of NTD 1.644 billion, which were 17.4 percent of total exports of

Taiwanese companies amounting to NTD 9.5 billion.

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A range of programs, including financing schemes, is provided to encourage SMEs to invest more in innovation and R&D, in order to enhance their international competitiveness.

One interesting program is the Small Business Innovation Research Program, which supports SMEs undertaking research and evaluation of innovative ideas that may be commercialized in the future. The unique feature of this program is the support that is given not only to individual company effort to innovate but also to what is called an R&D alliance application where a group of at least three SMEs band together to undertake innovations in industry standards, technology specifications, and industry upgrading. Said alliances may be intraindustry or cross-industry.

Another program to assist innovative SMEs is the Assist Service Sector Technology Development Plan. Under this plan, the government provides subsidies for SMEs in the following fields: wholesaling, retailing,

² The information in this section comes from ChiungFeng Ko, SME Financing to Promote Innovation: Taiwan, Republic of China, paper presented at the APO Second Coordination Meeting for the Research on the Financing of Small and Medium Enterprises, United Hotel, Taipei, Taiwan, 28–30 July 2010.

logistics, management consulting, international trade, e-commerce, convention and exhibition management, commercial design and franchise operation.³

In 1997, the government promoted the establishment of incubator centers to cultivate start-ups and contribute to the development of new products and new technologies. Incubator centers provide SMEs with space and facilities as well as technical, manpower, commercial, information and administrative support, funding, and managerial services.

As of June 2009, there is a total of 109 incubator centers located in 22 different counties and cities of Taiwan. Some examples are the Nankang Software Incubator, Nankang Biotech Innovation Center, Southern Taiwan Science Park Incubator Center, and

Kaohsiung Software Incubator Center. Ko (2010) reports on the performance of incubator centers in Taiwan in helping start-ups and in contributing to the development of new products and new technologies as shown in Table 1. The centers have had significant impact on Taiwan's leading performance in biotech, health care, and electromechanical equipment industries.

South Korea⁴

There are three million SMEs in South Korea, representing 99 percent of all the enterprises in the country and employing 11.5 million persons or 87.7 percent of the labor force.

³ There is a cap to the amount of subsidies given for a maximum period of two years.

⁴ The information in this section comes from Soon Yeong Hong, SME Financing to Promote Innovation in Korea, paper presented at the APO Second Coordination Meeting for the Research on the Financing of Small and Medium Enterprises, United Hotel, Taipei, Taiwan, 28–30 July 2010.

Table 1. Achievements of Taiwan's incubator centers, 2007–2009

Performance	2007	2008	2009	Cumulative Performance (1997–June 2009)
Funding support for incubator centers (NT million). Note 31.65 to 1 USD	172	176	175	2,032
SMEs cultivated in incubator centers	1,356	1,433	1,231	3,590
Innovation-oriented SMEs cultivated in incubator centers	525	671	604	1,214
Number of persons employed by firms located in incubator centers	27,133	35,345	23,188	80,881
New venture capital investments (NT million)	1,796	2,839	2,114	16,112
Number of patents secured by firms located in incubator centers	416	402	0	1,944
Number of instances of technology transfers implemented by firms located in incubator centers	149	181	0	848
Number of firms cultivated in incubator centers that secured stock market listing	6	5	0	45

Source: Ko (2010)

Value added by manufacturing SMEs comprises 49.2 percent of the total value added of the manufacturing industry.

While there are several government programs that support innovative SMEs, the following offer a fresh angle at SME promotion:

- The Korean Intellectual Property Office (KIPO) provides a patent evaluation service whose results may be used for getting funding support to SMEs with a high level of technology but without sufficient assets for security against loans. KIPO has established a one-stop total service system that consists of various services, from diagnosis of intellectual property capacity of SMEs to commercialization of intellectual properties. Consultants from regional intellectual property centers visit SMEs for diagnosis, followed by staff members who provide management consulting. Since 2008, KIPO has operated support programs that build innovative capacity of SMEs that are underresourced in technology development, suffer from patent disputes, or have difficulties in brand and design development.
- The government's Small and Medium Business Administration (SMBA) supports business incubators operated by universities and research institutes with facilities and equipment that can support potential entrepreneurs. The SMBA's core strategies for promoting innovative SMEs in 2010 include: (a) conduct of youth business start-ups; (b) acceleration of start-up activities of professors, researchers, and collegiate students; (c) improvement of the spin-off

start-up system for executives and employees of large firms; (d) operation of a 'home-based start-up system' that enables start-ups at homes; (e) expansion of the infrastructure for one-person creative enterprises; and (f) enhancement of productivity and nurture of manufacturing-based enterprises.

Local universities and specialized institutions offer about 100 start-up courses a year, an education program which targets potential entrepreneurs or new SME starters.

In terms of one-person enterprises, some examples include: (a) producers of traditional foods, handicrafts, jewelry; and (b) web designers, translators, and culture interpreters who provide services and utilize specific knowledge. The SMBA fosters one-person enterprises by:

- establishing and operating an "Idea Biz Bank" designed to collect and identify creative ideas, and to link to the "Idea Commercialization Support Project;"
- improving regulations for business start-ups; improving systems for easier start-up of traditional food manufacturing businesses in farming regions; expanding social safety nets through an optional subscription to an employment insurance; and
- supporting one-person enterprises through assistance in financing and technology development.

Conclusion and recommendations

As gleaned from the above illustrations, there are conscious policies and practical programs

to enhance entrepreneurship and SMEs in both Taiwan and Korea. A common strategy is to provide a nurturing environment for start-ups and existing SMEs and to make it easy for small and medium entrepreneurs to conduct their businesses. Apart from the traditional financing and credit guarantee support, these two countries have developed creative ways to promote and support not just ordinary SMEs but more especially SMEs with the potential to commercialize new ideas, innovations, and technologies.

The collaborative effort on the part of SMEs in Taiwan to address common issues is an important step to solve common problems that constrain the SMEs' growth. The alliance in R&D applications supported by this particular government program potentially has significant positive spillover effects to SMEs because collaboration and cooperation among similarly situated SMEs may result in solving economies of scale problems, bringing down transaction and operating costs, and developing innovative products and services.

A focus on improving the service sector in Taiwan may also lead to the development of new services, new business models and applications, new marketing approaches, better distribution mechanisms, and new commercial application of emerging technologies that are needed by the economy as it moves from an agri-manufacturing base to services.

Recognizing the global shift to knowledge-and-creative economy, the Korean

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government, on the other hand, is supporting one-person creative enterprises. At the same time, it also encourages entrepreneurship even at an early stage—at the level of high school students—and has designed strategies and approaches to stoke up the youth's interest in starting and nurturing businesses. Per information presented, 80 middle schools and high schools have implemented a program called 'Biz-Cool' Program to help students find careers in business and entrepreneurship.

Philippine policymakers may want to revisit the country's programs for promoting and supporting SMEs to determine whether such programs are oriented toward innovative SMEs. In the highly competitive business environment today, SMEs must be able to innovate and get the support they need.

The current support given by neighboring countries to small and medium entrepreneurs to commercialize new ideas, innovations, and new technologies is worth emulating. The growth of SMEs, and of firms in general, comes from innovations, which bestow them with the competency and skills to survive and successfully compete in global markets. This is the best way to go. 📖

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